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# Kambi Group Plc (KAMBI.SE)

Q2 2019 Earnings Call

## CORPORATE PARTICIPANTS

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, welcome to the Kambi Group Q2 Report 2019. Today, I am pleased to present Kristian Nylén, CEO and David Kenyon, CFO. For the first part of this call, all participants will be in a listen-only mode and afterwards, there will be a question-and-answer session.

Speakers, please begin.

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Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Good morning, and welcome to Kambi's second quarter results presentation. I am Kristian Nylén, Chief Executive and joining me is our CFO, David Kenyon. Please turn to slide 2. In a moment, I will give you a brief overview of what was another good quarter for Kambi. After which, David will take you through the numbers. I will then speak about the quarter in a little bit more depth including a new customer signing and the market launches.

But first on slide 3, let me give you a brief introduction to Kambi. Kambi is a premium turnkey sports betting service, offered on multiple channels including web, mobile and retail. Our service is managed from an in-house developed platform which has been continuously developed over the last decade. The platform together with more than 750 highly skilled staff forms the foundation of our service. The [audio gap] (00:01:21) of multiple elements from front-end user interface and [ph] APIs (00:01:25), through to odds compiling, customer intelligence and risk management, enabling our customers to offer their players the leading sports book experience on the market from day one.

Onto slide 4, Kambi's business is built up on a revenue share model, where our growth lean to our operators' success. The foundation of our service is based on scalability and the majority of our cost base is fixed. At no

additional cost to the operator, Kambi continuously invest in product, people and technology to maintain market leadership. We operate an experienced in-house trading and risk management team to optimize operator trading margin and our business is underpinned by our corporate probity and integrity. And we have successfully obtained all licenses we have applied for.

All of these combined, enable us to offer operators the flexibility and scalability required to succeed in today's highly regulated [ph] end (00:02:32) global markets. Our technology has been structured in a way that enables Kambi and its partners to quickly and efficiently comply with the myriad of regulatory requirements, removing a major barrier to the market and allowing the operators and the new markets as and when they require with a highly quality – with high quality and localized sportsbook.

We often hear our frustrations of sportsbook execs that are held back by in-house tech, crowning in the rising tide of complex compliance requirements. [audio gap] (00:03:11) believe market on the table [ph] for ours (00:03:13). The [audio gap] (00:03:14) operators from these challenges, enabling them up to scale at pace across the globe and focus resources on other areas of the [indiscernible] (00:03:25).

In total, we power more than 20 operators across six continents including some of the most recognizable and successful brands in the industry. Together, they create the powerful network of operators. This model enables Kambi to, for instance, aggregate and analyze all data produced across the network which guide [indiscernible] (00:03:51) our product development, ensuring we maintain market leadership.

The network effect also contributes to trading and risk management with our global coverage feeding into the delivery of sharp and more accurate prices. With each and every operator added to a Kambi network, the benefits are felt by all and it's a major reason why operators have been able to grow individually.

Let's look at the quarterly highlights on slide 5. In Q2, we posted revenues of €21 million, a 23% year-on-year increase. Operator turnover was up to 26% at an operator trading margin of 8.2%. We signed a new customer in BetWarrior who I will speak about in more detail later, where we also created another market first, processing the first legal online wager in Pennsylvania through our partner, Rush Street Interactive.

I will also touch on our activities so far in Q3 which includes being first to launch in New York, again with Rush Street.

Now I'll hand you [audio gap] (00:05:06) take you through the financial highlights, turning to slide 6.

## David Kenyon

*Chief Financial Officer, Kambi Group Plc*

[audio gap] (00:05:15) In Q2, had revenue of €21.6 million, up 23% on last year. For the first six months, revenue was €42.6 million, up by 25%. Operating costs for the quarter were €19.1 million, giving an operating profit of €2.5 million, at a margin of 11.7%.

For the first six months, operating costs were €37.5 million and operating profit was €5.1 million at 12.1%. Our cash flow for the quarter, excluding working capital, was €0.4 million, and the net cash position at the end of June was €33.1 million.

So, let's look at the income in some more detail and turning to slide 7. This slide sets out The Kambi Turnover Index. The graph shows the results generated by Kambi for its operators. The turnover is the total stakes placed with the operators by their end users. In Q2, we've seen operator turnover up by 26% on Q2 last year include the

underlying growth from our existing operators and from new operators in the U.S. and Sweden in particular. This growth [ph] is despite (00:06:37) Q2 last year including the majority of the matches of the 2018 Football World Cup which added 14% of the turnover in the quarter.

In years with no football World Cup or European Championship, Q2 typically experience its seasonality effect from the culmination of the major European football leagues and certain American sport seasons. As we can see on the graph, the 2019 [ph] passing (00:07:02) of a slight dip in Q2 from Q1 repeats what we saw in 2017. The margin represents the combined trading margin made by the operators. In Q2, this margin was 8.2%. We expect an average long-term operator trading margin in the range of 6.5% to 8%. We are continuously monitoring our expectations for this margin. The operator trading margin fluctuates in the short-term due to the outcome of sporting events with the highest betting volumes and value.

We can see the conversion from operator turnover growth to our revenue growth on slide 8. Operator turnover was up by 26% compared to Q2 2018. The operator trading margin multiplied by the turnover generated the operators' gross gaming revenue or GGR. The operator trading margin of 8.2% compares to the 7.8% we saw last year. Overall, this led to an operator GGR increase of 33% year-on-year. Kambi's commission is based on a percentage of the operators' net gaming revenue or NGR which is after the deduction of gaming tax and certain marketing incentives, this tax impact has increased significantly, reflecting the increase in the part of our business coming from locally regulated markets, including Sweden and the U.S. In total, 71% of our revenues came from locally regulated markets compared to 48% last year.

The impact of certain contract extensions, the fixed part of our revenues and certain volume-related commission tiers is shown in the other column of the graph. The conversion from operator NGR growth to our revenue growth in Q2 is 88%. The net effect of all these factors is that revenue for Q2 2019 is up by 23% on Q2 last year to €21.6 million.

Let's turn to the full income statement on slide 9. Operating expenses for the second quarter were €19.1 million. We continue to invest in building the market-leading sportsbook, as well as the ongoing licensing and developments for our commercial operations in the U.S. Looking forward, as we seek to capitalize on the commercial opportunities we see ahead of us, we anticipate sequential growth in operating expenditure of 3% to 5% for the remaining quarters of the year. Operating profit was €2.5 million for Q2 compared to €2.4 million last year, and €5.1 million for the first half of the year, up from €4.4 million last year. Profit after tax was €1.6 million for the quarter compared to €1.7 million last year, and €3.6 million for the first half, up from €3.2 million last year.

Now, let's look at the cash flow on slide 10. Set out on this slide are the major components which impacted our cash position during the quarter. Our opening cash balance is €40.8 million. Capitalized development costs in the quarter were €3.9 million whilst the amortization charge on previously capitalized costs was €2.4 million. This quarter saw the payments of the annual interest on convertible bond and certain tax payments made for which the company will receive a partial refund later in the year. The net cash outflow for the quarter was €0.4 million and our closing cash balance was €40.4 million.

So now, let me pass you back to Kristian turning to [audio gap] (00:11:02).

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Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Thanks, David. In June, Kambi signed an agreement with BetWarrior. Founded and led by PokerStars' directors, the management team plans to target regulated markets with Latin America as a major focus. The BetWarrior strategy very much complements the Kambi model. The operator is in the process of developing a unique front

end using the Kambi APIs and will harness the real-time data provided by Kambi to deliver personalized experience to their players. We look forward to launching together at some point this year.

Turning to slide 12, Kambi has supported [audio gap] (00:11:50) customer launches in Q2, one of which so as to create another little piece of sports betting history. In May, our customer, Rush Street Interactive, took the first legal online wager in the state of Pennsylvania when its PlaySugarHouse brand was the first to launch online.

In June, we launched Rush Street's BetRivers online sportsbook and Greenwood Gaming & Entertainment's Parx Casino sportsbook online in Pennsylvania. [ph] We were first, the non (00:12:22) Kambi online Sportsbook having only gone to live this week, Kambi launched first three sportsbook in the market, giving them valuable early mover advantage. Being first to the market is no accident. We achieved similar in New Jersey when DraftKings had a near month-long monopoly on the online market. We pride ourselves [ph] with corporate probity (00:12:46), and our transparency and our close relationships with regulators.

We have also developed flexible technology which can adapt up to speed to differing sets of specifications we see from state to states and country to country. [ph] Rescalability (00:13:03) is an essential consideration for operators with international or multistate ambitions and will prove to be a key differentiator as more regulator markets open up.

It was this ability to scale operators which recently led us to be working with William Hill, one of the most iconic sports betting brands in the world. Following its acquisition of one of our customers, we were able to assist William Hill's entry into the recently reregulated Swiss markets.

Also, as I mentioned in the Q1 report, we plan to launch online in Moldova with the National Lottery of Bulgaria. I am pleased to say this launch took place in late June, with retail to follow before the end of the year. Moving to slide 13, it has been a particularly busy few weeks for Kambi since the end of Q2. Last week, we processed the first legal bet placed in New York with our operator, Rush Street. While it's a shame there is no prospect of online sports betting in the state for at least another year, we are proud to have been the first to market on property as Rush Street launched [ph] the (00:14:22) Rivers Casino & Resort.

Again, this landmark shows Kambi's ability to deliver at speed. As I have discussed previously, Kambi has proven its retail capabilities time and again over the past year or so, both in terms of rollout and product quality, and I expect more on property launches to take place throughout the rest of the year. We have also extended our contract with Rank Group. Since 2016, we have been providing Rank's UK-facing Grosvenor Sports brand with our sportsbook. I'm pleased that this will continue. And in addition, Kambi will also supply Rank's Spain-facing Enracha brand which will be launched later this year. We look to building on our relationship with Rank over the course of the contract.

Now to slide 14, [ph] as anticipated (00:15:23), we are seeing some positive regulatory development in the U.S. in the recent months, with a number of states passing bills to launch sports betting. Among those states are Illinois, Iowa, Indiana and Tennessee. In the case of Iowa and Indiana, sports betting could be live by the start of American football season in about six weeks. In both states, online and on-property legislation has been passed.

Illinois and Tennessee are likely to follow early next year. In Tennessee, there would be no brick-and-mortar casinos, therefore, online legislation will not tie operators to land-based casinos as we have seen in other states. As mentioned, we are disappointed by the lack of progress for online sports betting in New York and also in Connecticut but we remain hopeful for both in 2020.

Meanwhile, there have been some positive signs in a number of other states including California, where in June a bill was introduced to propose a ballot measure which could legalize sports betting in the state. California voters could be given opportunity to amend its constitution and allow sports betting as early as November 2020. Of course, it's still very early days and we have seen the failed attempts to legalize online poker, but it is promising to see lawmakers in the states beginning to address each issue.

Meanwhile, in Buenos Aires City, sports betting regulation has been passed, with between 3 and 10 operating licenses available. This is in addition to Buenos Aires Province which passed regulation earlier in the year. Together, the two provinces make up roughly 40% of the population, a combined market of around 20 million people.

Turn to slide 15, as the number one sport in the U.S., it is perhaps unsurprising that American football is also the most popular for sports betters in the U.S. Over the course of the last season, NFL ranked first and college football second in terms of turnover ahead of all other sports and leagues. And according to data from Kambi network, 9 in 10 U.S. customers bet on NFL during the season where approximately half of all new customers making the first bet at football.

In the U.S. alone, more than \$0.5 billion was wagered on football last season, a figure that will only increase this year with more operators and greater visibility. And considering the increased number of seats that we'll be offering sports betting this season, it underlines why a high quality football product will be crucial if operators are to compete.

As our performance in the U.S.A. suggests, Kambi had the leading football product last year. Enriched with our experience and valuable data gain throughout last year, we are aiming to raise the bar once again and assure our operators have the number one product on the market.

For example, we have been investing in a new trading model for American football. This will bring us and our partners a number of benefits. For instance, last season, we saw a great appetite for our instant betting markets in the U.S., and the work we are putting into a new trading model will allow us to build on these instant bet offers and deliver more exciting betting experiences.

Secondly, it was noticeable that the industry as a whole struggled slightly with suspension times in play betting last season. While we are among the better performers in this area, there was room for improvement, and our new trading model will enable us to have our markets available for longer and during the most pivotal moments of a game, giving players an even greater experience and our operators longer periods in which to generate turnover.

Turning to slide 16, so in summary, Q2 was another solid performance from Kambi with a satisfying revenue and turnover growth. We continued our U.S. expansion with first to market launches in Pennsylvania and then following the quarter in New York state.

And [ph] finally (00:20:10), Kambi offers a market-leading Sportsbook which continues to break new ground with our unrivaled speed to market capability in new regulated markets. We were first in New Jersey post-PASPA, we have established a leading position in Pennsylvania's retail market, and launched the first free online sportsbook together with our sport partners. And in July, we again we're the first in New York.

Our product is market-leading and our service has proven to bring our partners financial success. We firmly believe Kambi is very well-positioned for the long term, and I'm confident whatever the future may hold Kambi will continue to lead the market and then empower our operators to realize their sportsbook ambitions.

Now, I'll pass over to the operator for questions.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Our first question is from [ph] Bill Ledar (00:21:18) [ph] Q Capital (00:21:19). Please go ahead. Your line is open.

Q

Hi. Do you hear me?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Hi, [ph] Bill (00:21:27). I hear you well.

A

Q

So I have two questions. The first one mainly focusing on your business model. And what we've seen earlier this year is that there's been a desire or a tendency that once operators reach global scale, that they tend to insource their sportsbook. So I would like to hear your thoughts on that and if you could elaborate on your ability to scale your customers and your ability to sign such global accounts in spite of the desire to insource the product.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Thanks. Yeah, I think [audio gap] (00:22:09), first, I've seen a lot of discussions around [ph] this area (00:22:13) and I don't really think that cost is a decision point for any operator deciding to bring sports betting in-house. I think it's mainly a belief of a company valuation, becoming more valuable with their own technology, or that they believe that you have a better possibility to differentiate your product.

A

And for a [ph] ladder (00:22:46) that is obviously possible if you have strong enough technology, but I think I've seen many cases in many industries where that has not really been the case. We can take Nokia, for instance, in the mobile industry, trying to do their own operating system and are not really on the market anymore.

So I still believe that even if you become a very, very large – that the outsource model is probably the model that will be most viable for most customers in the future as well. Did that answer your question?

Q

Yes, it did. Thank you. And then a second question which relates to the recent regulation in Sweden. And we saw in, I think it was in June, with a lot – a handful of operators, they've received a fine for offering bets on games



where the athletes were under the age of 18. And then we, so far – and thankfully, you haven't been fined yet or hopefully won't be fined even in the future. But could you just give us some sort of an overview about your systems and how you were able to mitigate this, and if there's any dialogue that you currently are holding with the regulator and if there's a chance to revise this regulatory flaw?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah, I think that [audio gap] (00:24:34) your last question first. I don't think neither us or the operators have a good chance of having a dialogue with regulators at this point, which is very unfortunate because I think the rules are very unclear. Legal advice is differing very much and I am not sure everyone knows and what to understand – what is happening at the moment. I think why we have been able to not having our operators [ph] fined (00:25:17) so far, we took a quite a cautious approach from the beginning. And we will keep on doing that.

But having said that, I mean, sometimes, it's just impossible to know if a majority of participants are underaged. I mean, if you take a friendly in football, for instance, it's not like you have any lineups well in advance of a match, so it may be just afterhand that you actually knew that that was a case.

From a regulator's perspective, I think it's very important that we get a better dialogue and much clearer rules. Because at the moment, it's not really possible to follow and be certain that you follow the rules, I will say. But we do as good as we possibly can. And, yeah, we created a lot of systems to track players and understand the age in, especially sports like tennis, of course.

Q

And then just one final question. There's been a lot of discussion in the U.S. about integrity fees and there are some states that are looking at, including that into their regulatory framework. And where does that leave you? Is that a topic that you need to address or your clients?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Mainly, our clients, I will say. For us, it has quite a large impact as well because we need to provide the data. And in many cases, the integrity fees are tied to using official data. So what [audio gap] (00:27:20) yeah. If you have integrity fees, you may get well too high pricing on official data, so it can have an impact. But, obviously, it's the operators who are responsible for integrity fees. But as we are a supplier, it affects us as well to some extent.

Q

Yeah. Thank you.

**Operator:** And our next question is from Erik Moberg from ABG. Please go ahead. Your line is open.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Good morning, guys. Just in regard to the underlying growth, if we exclude for soccer World Cup last year, could you give us some flavor on that?



David Kenyon

*Chief Financial Officer, Kambi Group Plc*

A

Yeah. Hi, the [indiscernible] (00:28:10) not to mention the [audio gap] (00:28:13) last year [audio gap] ((00:28:14) turnover came from the World Cup. If you take that out, we would have seen 47% operator turnover growth this quarter versus Q2 last year.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Okay.

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

A

46% in Q1, so it's a quite consistent number there.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Okay. Fair enough. And in terms of your top line, if you look at customers that have been signed for the previous – for the past 12 months, how much of your top line came from those customers?

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

A

It's not a number we split out as such. Of course, in the last 12 months, we signed [ph] all (00:28:49) the American customers plus ATG, [ph] casino (00:28:53) various, quite a roster of customers there. What I did mention when I spoke was that there's the greatest in operator turnover. They have come – so the 26% turnover growth, that's come both from the new but also underlying growth in existing. So it's great it's coming from both parts of the business.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Okay. But looking at these customers, do you expect this to go sequentially improve during H2 now and into next year? How much do you think these customers can grow, so to speak?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

[ph] I can't really (00:29:31) give you a number on what we think it grows, of course, since we don't give guidance. But as new customers becomes larger, they will have a higher impact on the future revenues. So the impact of the customers who were signed during the last 12 months will obviously have a larger impact going forward.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Okay. Fair enough. And if you look at your Corredor in Colombia and National AD in Bulgaria, could you give us some flavor on their development q-on-q and the sort of the outlook you see for the remainder of the year? Do you believe those two contracts will continue to accelerate?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah. So Colombia [ph] ones (00:30:23), they are doing fantastically well. I think Corredor has taken a very, very strong position in Colombia and that just keeps on growing. So that looks very, very promising. Bulgarians, they are also doing well. And I think there, we're very excited on what [ph] Corredor (00:30:49) [audio gap] (00:30:49) being more or less the only operator licensed to operate sports betting.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Okay. Fair enough. And just looking at the profitability, like theoretically, if we would sort of just remove 888 and DraftKings from top line completely for this quarter, would you still be profitable today?

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

A

Just it's not the way we're looking at it right now. I mean, first up, with 888, there is protection in the contract which we talked about before. And [ph] it's (00:31:25) a contract which I think they have probably talked about, [ph] the ones (00:31:28) updated...

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Yeah, yeah.

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

A

...into 2021. So, yeah, it's not really an exercise we're doing. More importantly, we continue to invest right now because we see these great opportunities ahead of us in LatAm, in America. So we're more interested in what we can achieve. We'd rather look in at what we might lose in the short term.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Okay. And just in terms of...

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

A

But, of course, [ph] they (00:31:48) can reassess that in the future. Things change, but right now...

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Okay.

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

A

... [ph] that's all we can do (00:31:52).

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Okay. And in terms of LatAm, you mentioned BetWarrior there who were aiming to become one of the largest player on that continent. But sort of in terms of potential in a blue sky scenario, do you think that BetWarrior has the potential to become a new 888?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

I mean, it's way too early to [ph] predict (00:32:17). I think the management has a very good vision, so I definitely think they have a good possibility to become a market leader in many of the Latin American countries. But it's way too early to say. I mean, you have seen some customers doing fantastically well and some others not so well. So, obviously, we have some belief in them since we actually wanted to work with them, but it's – yeah, let's [audio gap] (00:32:56) started to make any a big judgements on their performance.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Okay. Fair enough. And looking at the U.S., if we would assume in the worst case that you lose your largest U.S. client, DraftKings, in terms of 2022, U.S. revenues as a percentage of total sales, how much do you think that could be? Do you think it could still stay relatively the same? Because if – sorry, continue. My bad.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah. I think if you look on the revenues coming from U.S. so far and DraftKings, specifically, I mean, that has been from one relatively small state. So I think even if that were to happen, I expect the U.S. to grow quite significantly from the numbers we have at the moment.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Okay. I'm just asking because if we say you wouldn't have DraftKings, could you more easily be content [ph] of 15 (00:34:06) new customers versus if you have DraftKings? I assume if the SBTech DraftKings actually would pull through, DraftKings would probably not let SBTech sort of sell their B2B sportsbook in the U.S.?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah, that's an assumption. Now, I think it's possibly likely. But with or without SBTech as a competitor, I think – we feel that so far, we have been winning a lot of very, very strong deals outside of DraftKings. And I strongly believe that we will continue to be the B2B supplier that will win many of the attractive deals in new states to come.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Got you. And just looking at your pipeline today versus Q3 last year, could you give us some flavor on that and – yeah, sort of how large the pipeline today versus 12 months ago?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah. I [ph] don't (00:35:26) think – as I said for a long time, I think it looks very, very good. I think we have a lot of different opportunities going on and I'm quite excited about the future.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Fair enough. And just looking at the tribal casinos in the U.S., if we look at that particular niche, so to speak, are there any particular [ph] actors (00:35:53) out there that you find particularly interesting to close a deal with?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah. The larger and the most interesting, of course – don't really wanted to mention anyone, but I talked a little bit about California. And that is by far the largest state in the U.S. It's I think roughly 40%, 45% over the total GDP of U.S. So...

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Yeah.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

...even though it's more than a year away, but in best case, obviously, I think both us and our competition is already looking at California.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Yeah. And just hypothetically, if we would say that say, five states opening up, New York, California, Michigan and then two additional state, would you expect to win deals there as of today, if we're talking [ph] up today (00:36:51)?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yes. That's why we're in in this business.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

[ph] Noted (00:36:58). Fair enough. And keeping focused in Pennsylvania, it's very difficult sort of to understand the potential both in terms of the overall market size and also in terms of the acquire potential there, but sort of do you expect Pennsylvania to contribute, say 10%, 20%, 30% or even 50% of New Jersey this year, or how should we sort of model Pennsylvania?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

I mean, I don't [audio gap] (00:37:28) any reason for Pennsylvania to be smaller contributor, talking [ph] GDR (00:37:35) than New Jersey. I mean it's almost twice as many people. Of course, that's offset on a [ph] marked (00:37:44) [audio gap] (00:37:45). But I have a hard time to see Pennsylvania longer term not being in larger market than New Jersey.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Okay. Fair enough. That's all for me. Thank you very much, guys.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Thank you.

**Operator:** And our next question is from Hjalmar Ahlberg from Kepler Cheuvreux. Please go ahead. Your line is open.

Hjalmar Ahlberg

*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

Thank you. Just the first question about – I mean, you mentioned Iowa and Indiana going live on time of NFL this year. Do you think you will be able to have anything launched for your clients there [ph] after (00:38:24) NFL as well?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

We hope so, but we haven't communicated anything yet. Nothing is clear so I can't give you more than that.

Hjalmar Ahlberg

*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

Yeah, yeah, okay. And a question on New York. You're up and running there now a casino. Do you think – I mean, if you want to guesstimate on the potential from an individual casino there, do you think it's fair to compare maybe with Pennsylvania and the casinos over there in terms to – I mean the revenue potential for a single – these casinos could be in New York?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

No, no, no, no. [indiscernible] (00:39:05). I think the Pennsylvania casinos, they are located in Pittsburgh and Philadelphia, whereas the New York casinos, all of them are located upstate in – yeah.

Hjalmar Ahlberg

*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

Yeah.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Not so easy accessible places. So, I wouldn't compare them at all to each other.

Hjalmar Ahlberg

*Analyst, Kepler Cheuvreux SA (Sweden)*

Okay. That's all from me. Thanks.

Q

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Thank you.

A

**Operator:** And our next question is from Viktor Högberg from Danske Bank. Please go ahead, your line is open.

Viktor Högberg

*Analyst, Danske Bank A/S (Sweden)*

Hi. Good morning. So, I have a question on – at those new guidelines for apps, gambling apps, they need to be native [ph] ILC (00:39:51), could you say something about that if that will have an effect or is it up to you or your operators? Do you have anything to do with the operator's app to being compliant with the new guidelines to be able to [indiscernible] (00:40:06)?

Q

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Well, at the moment, it's not really on us but having said that, I think we have a new rules, so we may look into producing more, more our client in native for the future. But I mean at the moment, we have a new guidelines. Rush Street recently got their app approved in Pennsylvania after some extra work with – on the new location. So, at the moment, [ph] it's like (00:40:50) – it's still possible to utilize the [indiscernible] (00:40:55) technology in that but I think we are – yeah, continuously investigating this and we are continuously in discussions with our operators about the future here.

A

Viktor Högberg

*Analyst, Danske Bank A/S (Sweden)*

Could you say you're worried or are your clients worried about this or is the third-party deal location like workaround is that solving the problem fully or?

Q

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

I mean, you always have to be worried when you're dealing with a company who has, yeah, such a large market share and can change rules overnight. So obviously, you have to look at [audio gap] (00:41:46) and how to adapt to it, but I don't think – I think we're still fine for the near future.

A

Viktor Högberg

*Analyst, Danske Bank A/S (Sweden)*

Okay. And for the OpEx growth guidance, 3% to 5%, that's a lower number than for Q2. And I actually expect you to continue with that guidance. Has something changed? What do you see because I heard at your Capital Markets Day this spring, got the feeling that you will keep continue investing in the U.S. with the implication of high OpEx growth for the full remainder of this year. Has something changed in your investment outlook or was this the plan all along?

Q

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

A

No, not really. I think the underlying assumptions haven't changed insofar as we keep investing in enough stuff for technology to keep increasing our output and as well – and in the U.S. just for [ph] commercial purposes (00:42:51). So, I guess what has changed is actually just the number and speed of certain states regulating and also the fact that actually in some states, it's actually going to be slightly lighter-touch application and therefore, by implication, slightly lower costs for us.

So if you look at, for example, Iowa, we don't need to apply for a full license for that supplier. There's one thing on that, there's one that's coming up in this current quarter. So, it's literally just a slight flexing down on that cost outlook both in a, kind of, underlying change at this stage.

Viktor Högberg

*Analyst, Danske Bank A/S (Sweden)*

Q

Okay. So does it reflect that you're disappointed in the rate of regulations in the U.S. as well or?

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

A

Not really. It was always kind of hard to estimate upfront exactly which states would regulate when actually. We're quite pleased that some are coming perhaps as we predicted in line with the NFL season. If you look at Iowa Indiana and then there are others which have the following on fairly close behind and could fall into Q4, could fall into Q1 but it seems to be happening almost as fast as we thought so yeah.

Viktor Högberg

*Analyst, Danske Bank A/S (Sweden)*

Q

Okay. Last question, sorry if you already talked about this but the Stanleybet, the revised contract with them. Could you talk a bit about that? Only supplying online. From my understanding retail is quite a large market there as well.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah, that's correct. I think when we started to look on what we had promised to deliver and what Stanleybet expected from us it was kind of a big discrepancy where we couldn't really agree on how to do it and therefore I think both parties felt that it was better to drop the retail part for now.

Viktor Högberg

*Analyst, Danske Bank A/S (Sweden)*

Q

Okay. Well, thank you.

**Operator:** [Operator Instructions] Our next question is from Christian Hellman from Nordea. Please go ahead. Your line is open.

Christian Hellman

*Analyst, Nordea Bank ABP*

Q



Hi. Thanks. Most of my questions have already been answered but I have one that I'd like to get some color on and that's Sweden. If you could just give us your thoughts on the Swedish market and [ph] our Polish regulation (00:45:20), incumbents versus the private operators and just sort of [indiscernible] (00:45:27) or your own expectations before the regulation, how it's developed and how it stays going forward in terms of sports betting obviously?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

I think for us, except what I touched before, we were under 18 regulations. I think for us it has been a very positive experience so far with the Swedish regulation. I think our largest customers are doing quite fine, bringing [indiscernible] (00:46:02) into a market that's in a very, very good [audio gap] (00:46:07). So, for us, I will say we are quite pleased with the exception of the uncertainty around the whole under 18 issue.

Christian Hellman

*Analyst, Nordea Bank ABP*

Q

Okay. And that was it for me. Thanks, guys.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Thank you.

**Operator:** And our next question is from Anton Wester from Pareto Securities. Please go ahead. Your line is open.

Anton Wester

*Analyst, Pareto Securities AB*

Q

Hi. I have just one question here. It's about the sportsbook margin. We have seen in the late – over the last eight quarters that we have had a sportsbook margin over 7.5%. Is it improved data tools behind the higher level?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Not so much. I think, and to some extent, obviously we improved the tools [indiscernible] (00:47:04) all the time. But I think it has had more to do with changing behavior on our customer base. But yeah for instance, if you take in Colombia, we have massively higher margin because they are mainly betting on more accumulators.

[ph] So you see (00:47:28) the bet [indiscernible] (00:47:29) that we launched it's also quite a high margin product. So you'll see some things. I have been talking about this for a few quarters but we are continuously looking at the margin. What we have, still our believing is that U.S. market will have a lower margin. And I think that is the main reason we haven't changed the guidelines yet.

Anton Wester

*Analyst, Pareto Securities AB*

Q

And speaking about the U.S., do you think that the market which is [ph] going to high tax from (00:48:04) sports for example Pennsylvania that they will operate with higher sports betting margin to offset the tax?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

No, I don't think so. I mean, as long as you have the tax on gross win I think you're well better off having a competitive product. Because in end, the most customers are spending the same amount of money across the month so if you take out a higher [indiscernible] (00:48:47) just spend less money.

Anton Wester

*Analyst, Pareto Securities AB*

Q

Great. And can you also give us some more details surrounding the sequential turnover growth in Europe?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah. I think what we have seen over the years and I mean you get some bumps here and there because of new regulations and things like that, but the sequential growth of sports betting in Europe, I would believe will stay around the high-single digits for online for next coming years, some up and downs because of large football tournaments.

Anton Wester

*Analyst, Pareto Securities AB*

Q

Great. And also you mentioned some states in the report: Illinois, Iowa, Indiana and Tennessee. And regarding the potential size compared to New York's for example, what are you seeing there? You mentioned Pennsylvania as big as New Jersey plus the other states.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah, I think, obviously, Iowa is a quite a small state. Indiana, decently sized not us – not close to Pennsylvania of course, but decently sized state. Illinois I think is the fourth largest state in the U.S. So obviously, that is – could be highly attractive. Tennessee, yeah, quite a small state, so interest – I think what's most interesting with Tennessee is actually about the regulation is not tied to retail. So, it's more a European model than in other states. So, that's exciting.

Anton Wester

*Analyst, Pareto Securities AB*

Q

Yeah, but the rule of thumb is just like we can say that Indiana half the size of New Jersey. Tennessee, the same than Illinois bigger than New Jersey.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Oh, yeah. I mean Illinois should be one of the largest states that can open up.

Anton Wester

*Analyst, Pareto Securities AB*

Q

Yes. Great. Yes. That was all for me. Thank you.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Thank you.

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**Operator:** [Operator Instructions] As there are no further questions, I will hand over back to the speakers for any final comments.

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Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Okay. Thank you for the questions and for listening in. We look forward to updating you on the 25th October, when we publish our third quarter results for 2019.

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